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SUBJECT: INDIA: LACK OF MARKET DRIVERS FOR CLEAN TECHNOLOGY

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¶1. (SBU) Summary and Comment: This cable will look at the investment environment for clean technology in India and the potential role US diplomacy, technology, and financing can play. A number of market challenges such as the lack of a green market among consumers and minimal involvement from the financial sector create barriers to entry for foreign clean technology firms. In addition, policy challenges such as insufficient knowledge of the social costs of energy as well as conventional energy subsidies have kept the clean technology revolution at bay in India.

Clean Technology - Good for Business?

¶2. (SBU) Advocating the adoption of cleaner, more efficient technologies to large Indian firms is straightforward for EmbOffs because it will positively impact a company's operating profit. Firms that adopt clean technologies will be better prepared for the global economy which has been putting a greater emphasis on corporate social responsibility (CSR). These firms are likely to be viewed more favorably in capital markets and their products will be more attractive to eco-friendly consumers in export markets. In addition, there are a number of incentives provided by the Government of India (GOI) for manufacturers and end users of renewable energy systems, such as exemptions from excise duties, low import tariffs on capital equipment, and soft loans according to the website of the Ministry of Non-Conventional Energy Sources (MNES). (Note: SciOffs attempted to contact MNES officials regarding details of incentives, but received no response.)

¶3. (SBU) However, for small and medium sized enterprises (SMEs), which represent 60% of Indian GDP and 35% of all exports, clean technology is a tough sell. Rita Choudhury, Team Leader of the Environment Division at the Federation of Indian Chambers of Commerce and Industry (FICCI), stated that while large corporations which already have a presence in the global marketplace have begun to adopt clean technologies, the main challenge lies in raising awareness among SMEs. These SMEs, she stated, have limited access to information regarding the benefits of clean technology and more importantly, lack access to the proper financial instruments necessary to make these operational changes. While environmental protection laws create a market for cleaner technologies, RK Sethi,

Director of Climate Change at the Ministry of Environment and Forests (MOEF), told SciOffs that when it comes to SMEs there is no enforcement of environmental regulations.

Bottom Line - Market Drivers Not Present

¶4. (SBU) Several concrete factors prevent clean technology market penetration in India today:

-- Lack of awareness of impacts of climate change and the economics of clean technology among consumers, manufacturers, and service providers;

--Lack of enforcement of environmental regulations, especially for SMEs;

--Cleaner technologies are not competitive due to heavy GOI subsidies for fossil fuels;

--Reluctance of large foreign clean technology firms to scale down to meet the needs of small Indian players; and

--Lack of financing options for consumers of renewable energy equipment.

¶5. (SBU) In order for clean technology to flourish in India, we have to create fundamental awareness of the impacts of climate change among Indian consumers as well as educate Indian SMEs on the long-term economic benefits of operating cleaner and more efficiently. While there are financial incentives provided by the GOI for renewable energy system manufacturers and end users, Indian firms will need assurances of increased long term profitability to justify the operational changes required to go clean. KP Nyati, Head of the Environment Policy Division at the Confederation of Indian Industry (CII), stated that while sentiment is growing, the clean technology movement has not struck a chord with most Indian businesses. He stated further that this was primarily due to the

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fact that most clean technology literature did not stress the profit potential of clean technology, but relied on normative arguments such as CSR, leading most Indian firms to view the adoption of this technology as an additional cost that would have negative impacts on their bottom line. In addition, most information on clean technology is in English and thus not useful for the majority of SME operators.

True Costs of Fossil Fuel Energy Unknown

¶6. (SBU) Conversations with the GOI in regards to adopting clean technology typically end at the mention of upfront capital expenditures. While initial costs are high, life cycle costs, including externalities such as environmental and social costs, of cleaner, more efficient technology versus conventional technology tend to be significantly lower. This type of in-depth analysis of externalities has not been done in the context of India and would prove to be invaluable in future discussions with the GOI. Other policy hurdles include heavy subsidies placed on conventional fossil fuel energy sources. To alleviate the burden of the demand-supply gap in electricity, the GOI has subsidized kerosene, a key energy source in rural India, making it difficult for cleaner energy providers to compete for this market.

¶7. (SBU) In terms of technology transfer between the US and India, a common problem that arises is the fact that US technology firms are unable to financially justify scaling down to meet the needs of India's smaller firms. On the flip side, even if the technology firms could manage to provide to individual Indian firms, the small order sizes would drive up the unit cost of technology, making it unaffordable.

Clean Technology Financing: Low Presence, Unattainable

¶8. (SBU) Choudhury also remarked on the lack of involvement by the financial sector in India in the realm of clean technology. This limited involvement echoes the lack of a green market. A bright spot is large corporations, which have already begun adopting clean technology, readying themselves for the global marketplace. For most SMEs, however, the lack of enforcement of environmental regulations provides little incentive to make clean technology investments. A major opportunity, particularly for solar photovoltaic (PV) devices, lies in consumers that are not connected to the power grid such as lower income households, rural communities, and the myriad of small businesses that make up the informal economy. While financial institutions in India provide low interest rate financing to buyers of clean technologies such as PV devices, these populations are typically denied access to financial services based on socioeconomic status and are left to find funding from fledgling microfinance institutions. While the microfinance movement is growing rapidly in India, it is not available in most rural communities, where 70% of the Indian population resides. Microfinance initiatives, however, have had the unique success of reaching some of the poor via NGOs and other effective grassroots networks. This approach has also proven to be an effective solution for the proliferation of clean technologies in rural homes and businesses. For example, Selco India's solar panel project utilized innovative financing to provide clean technology to populations denied financial services by mainstream banks.

Market for Green Products Does Not Exist

¶9. (SBU) In spite of the surging purchasing power of India's middle class, consumers in this segment have yet to go green. Pritee Shah of Ahmedabad's Consumer Education & Research Centre attributes the apathy to a "chicken-and-egg situation" where industry doesn't see a market for green products due to low awareness among consumers and consumers are not aware of green products due to their limited availability in stores. EcoMark, India's equivalent to the US's Green Seal, has only been secured by 12 companies in its 20 year existence and is widely regarded as a failure. Ecomark's struggles led to a 1998 study commissioned by the MOEF which found that only a handful of consumers in the wealthiest income bracket were willing to pay more for green products and they would only be willing to spend up to approximately 10% more for that product. Our GOI colleagues have reiterated the line of reasoning that economic

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considerations will almost always supersede environmental health in India.

¶10. (SBU) In our next cable we will explore potential solutions to market and policy challenges to deployment of cleaner technologies in India.

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